12 Distribution strategy

This chapter covers Unit 2, Module 2, Section 9.
On completion of this chapter you should be able to:

➢ understand what is meant by the concept of distribution
➢ recognise that the main objective of distribution is customer service
➢ analyse and evaluate different distribution strategies and distribution channels
➢ understand the key elements in a physical distribution (logistics) strategy

Concept of distribution

'Getting the right product to the right consumer at the right time in a way which is most convenient to the consumer' is a good definition of distribution. Any business, whether it produces goods or provides services, needs to establish a distribution strategy that will define how it is going to move products from the point of creation to point of consumption in an efficient and low-cost manner so that it is convenient for the consumer to buy. The term often used to refer to all businesses involved in getting products on to the shelf – the producer and manufacturer, wholesalers, transporters and retailers – is the 'supply chain'.

Customer service as objective of distribution

The main purpose of distribution is not necessarily to aim for lowest cost. A farmer could decide to sell his products only to consumers who visit his farm and not to transport goods to retail outlets. This would be cheapest for the farmer – but would it be convenient for many potential consumers? Probably not, as many busy consumers expect home delivery or access to food products through local shops. A computer manufacturer may decide to only sell its products via the internet and not to shops or other outlets. Again, this might be cheapest for the manufacturer but how good is the service being offered to customers – especially those without a computer to access the internet?

Cost must be a factor in the distribution strategy used by any business, but it should not be the primary one. Customer service is the key objective of distribution. Goods and services should be available to customers as and when they choose to purchase them – not at the convenience of the producer. Later in this chapter, the different distribution channels will be analysed for their potential to provide good customer service.

Today’s customers are starting to shop very differently to the past. They increasingly have access to high-quality information via the internet and this has given them more information about competitors, has increased their price sensitivity – and, crucially for the distribution strategy, has given them the ability to purchase 'on-line'. This trend is not confined to consumer markets. More business to business transactions (B2B, as it is sometime referred to) are now being conducted via the internet, by-passing the traditional distribution channels.

Channel strategy

The channel of distribution refers to the chain of intermediaries a product passes through from producer to final consumer.

In deciding on an appropriate channel strategy, a business must answer questions such as:

➢ Should the product be sold directly to consumers?
➢ Should the product be sold through retailers?
How long should the channel be (how many intermediaries)?

Where should the product be made available?

Should electronic methods of distribution be used?

How much will it cost to keep the stock of products on store shelves and in channel warehouses?

How much control does the business want to have over the marketing mix?

How will the distribution channel selected support the other components of the marketing mix?

The distribution strategy must be integrated with the marketing objectives of the business. For example, if the aim is to secure a niche market with a high-quality image product (e.g., branded cosmetics) then selling it through street vendors will not achieve this objective. If, however, the marketing aim is to achieve maximum sales and distribution coverage (e.g., sweets), then selling through a few carefully selected and exclusive food retailers will not be successful.

As with all components of the marketing mix, distribution channel strategy must be clearly linked to marketing objectives and to the other components of the mix for an effective and convincing overall marketing strategy to be developed.

### Types of distribution channels

These are the most common types of distribution channels and their main advantages and drawbacks to businesses.

<table>
<thead>
<tr>
<th>Type and main features</th>
<th>Examples of products/services often used for</th>
<th>Possible benefits</th>
<th>Possible drawbacks</th>
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<tr>
<td><strong>1 Direct selling</strong></td>
<td>Mail order from manufacturer, airline tickets and hotel accommodation sold over internet by the businesses themselves. Farmers markets – selling produce directly to consumers.</td>
<td>No intermediaries so no mark up or profit margin taken by other businesses. Producer has complete control over marketing mix – how the product is sold, promoted and priced to final consumer. Quicker than other channels – may lead to fresher food products. Direct contact with consumers offers useful market research.</td>
<td>All stock costs have to be paid for by producer. No retail outlets limits the opportunities for consumers to see and try before they buy. May not be convenient for consumer. No promotion or after-sales service undertaken by intermediaries.</td>
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<td><strong>2 One intermediary channel</strong></td>
<td>Holiday companies selling via travel agents. Large supermarkets that hold their own stocks rather than obtaining goods from wholesalers. Where the whole market can be reached using a one-level channel, e.g. a small country.</td>
<td>Retailer holds stocks. Retailer offers display facilities and after sales service. Retailers ought to be in locations that are convenient to consumers. Producer can concentrate on production of goods/services and not selling to consumers.</td>
<td>The intermediary takes a profit mark-up. Producer loses some control over marketing mix, e.g. the final price to the consumer. Retailer may sell products from competitors too so there is no exclusive outlet – as would be the case with direct selling. Producer has costs of delivery to retailers.</td>
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| Two channel intermediary | In a large country with great distances to each retailer, many consumer goods and distributed in this way, e.g. soft drinks, electrical goods, toys | • Wholesaler holds stocks and reduces the cost of holding large stocks by producer.  
• Wholesaler pays for costs of transport to retailers. Wholesaler is ‘breaking bulk’ by ordering from producer in large quantities but delivering in smaller quantities.  
• May be only way of entering foreign markets where producer has no direct contact with retailers. | • Another intermediary takes a profit mark-up.  
• Producer loses further control over marketing mix.  
• Slows down the distribution chain. |

Recent trends in distribution channels in recent years include:

- The increased use of the internet for direct selling of goods and services. In the service sector this can be seen with ‘internet banking’ and direct selling of insurance policies ‘on-line’.
- Large supermarket chains perform the function of wholesalers as well as retailers as they hold large stocks in their own central warehouses. By owning another link in the distribution chain the business is engaging in ‘vertical marketing’. Another example of this form of integration is Sony owning its own shops. The use of franchises to sell the producers goods (e.g. McDonald’s hamburgers and Benetton clothes) is another example of vertical marketing.
- Some businesses are increasingly using a variety of different channels, e.g. an ice cream manufacturer may have their own ice cream vans to sell directly as well as supplying retailers. Hotels may sell room accommodation directly as well as through travel agents and holiday companies.
- There is increasing integration of services where a ‘complete’ package is sold to consumers, e.g. air flights, car hire, hotel accommodation are sold or distributed to consumers at the same time.
- There is a significant increase in the use of retail outlets by the service sector, e.g. estate agents.

Elements of physical distribution (logistics) strategy

So far in this chapter we have considered the different distribution channels that can be used to help achieve customer service efficiently. There is also another consideration before an optimal ‘end-to-end’ supply chain can be devised and this is the physical movement of the goods from producer to customer. This introduces us to the study of ‘logistics’ which aims to obtain the lowest cost transport solutions to the distribution problem whilst achieving the highest level of customer service. If we take the case of a manufacturing firm with two factories and five warehouses in different locations, there are two main elements in determining its effective logistics strategy.

A logical transport network

A transport network is made up of the links between the manufacturer and the next intermediary level in the distribution channel. If we assume that this is 20 retailers, then the following could be a transport network to supply these 20 retail locations.

The decision on where to locate the warehouses and which routes to take from warehouse to retailer will depend on many considerations, most of them cost based, such as:

- Land costs in each location.
- Warehouse labour availability and cost.
- Fuel prices in different areas.
- Distances on all possible routes.
- Average time taken on each route – the shortest route may actually give a slow journey time if the road is poor. So factory B supplies warehouse 4 which itself supplies retail shop X because of low journey times – not because they are the shortest routes.
- Demand patterns in each location.
- Shipment sizes.
- Delivery frequency.

This information needs to be analysed carefully to obtain the OPTIMAL transport network. If other forms of transport were also to be considered, then the network would become more complicated as rail, ship and air travel might also be considered as possible logistical alternatives to road transport. The aim is always to reduce total distribution cost whilst maintaining customer service standards, e.g. never running out of stock at any of the retail locations.
Distribution centre plan
In our example above the distribution centres are the factories (distributing to the warehouses) and the warehouses (distributing to the retail shops). These distribution centres need to be efficiently managed to ensure maximum customer satisfaction. There is no point in having the best transport network possible if orders are lost, goods are damaged while being handled or insufficient stocks are held. These are some of the factors that must be considered before the manufacturer referred to above can plan its distribution centres well so as to complete an effective logistical strategy:
- Historical data on demand patterns at each retail location.
- How orders from retailers are to be recorded and acted upon.
- How the level of stocks of each item are to be recorded and how re-orders to the factory are to be communicated.
- How goods are to handled, moved and loaded on to vehicles.

Logistics is the final link in the distribution chain. Distribution of goods and services can often be overlooked by students when they consider the vital elements in effective marketing. However, as this chapter has explained, if customer requirements are not met through the appropriate distribution channel and with efficient logistics, then even the best product, promoted imaginatively and sold at the most attractive price, will fail to achieve the marketing objectives set for it.

Over-to-you
Revision questions
(50 marks, 75 minutes)
1 What is meant by the term 'supply chain'? (3)
2 Explain why customer service should be the main objective of distribution. (4)
3 Outline THREE factors that a business should consider before deciding on its distribution strategy. (6)
4 Explain TWO possible advantages to a jewellery maker of using direct selling. (4)
5 Explain TWO possible disadvantages to a jewellery maker of using direct selling. (4)
6 Explain TWO possible advantages to a farmer of using retail shops to sell produce rather than selling directly. (4)
7 Explain TWO possible disadvantages to a farmer of using retail shops to sell produce rather than selling directly. (4)
8 Outline TWO functions performed by wholesalers in the supply chain (i.e. sell rooms to customers). (4)
9 Explain how increasing use of the internet is affecting methods of distribution used by businesses. (4)
10 Explain TWO ways in which a hotel might 'distribute' its services. (4)
11 What is meant by the term 'logistics'? (3)
12 Explain why an effective logistical strategy is important for a business making butter, cheese and other dairy products. (6)

Discover and learn
* 1 Read the following case study and then tackle the exercises that follow.

Case study – Island sweets to open own shops?
Our business reporter has heard rumours that Island Sweets, the country's largest producer of sweets and chocolate products, is planning to open its own range of shops. At present the company distributes its products to three wholesalers who then carry out the tasks of selling and transporting the products to retailers all over the country. The reporter asked for confirmation of this rumour from Sean McVitie, the company's Chief Executive and he was quite informative:
'It is true that we are considering changes to the company's supply chain. We are concerned about our price competitiveness and using intermediaries increases...